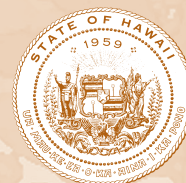


Holomua



Employees' Retirement System
of the State of Hawaii
Working to fulfill your retirement dreams...



2013 Proposed Legislation

The 2013 Hawaii State Legislature opened on January 16, 2013 and will run through May 2, 2013. There were four Employees' Retirement System (ERS) related bills introduced by the administration to be heard and discussed during this session. Below are summaries of the proposals. For more information on these and other legislation, you may visit the State Capitol website at www.capitol.hawaii.gov.

H.B. 805: Relating to Federal Tax Qualification of the Employees' Retirement System

The ERS is a tax-exempt, qualified retirement plan under section 401(a) of the Internal Revenue Code (Code). Compliance with the requirements of the Code allows for favorable tax treatment of member contributions and does not require members to pay federal income taxes on the present value of their accrued vested benefits. In order for the System to retain its tax-qualified status, this bill proposes two amendments: (1) to reinforce the benefit limitations imposed by the Internal Revenue Code, and (2) to clarify vesting rules for the accrued retirement benefits for ERS members. Both amendments are technical clarifications to the existing ERS statutes and do not change requirements or benefits provided by the ERS.

H.B. 807: Relating to Retirement Benefits for Judges

This proposal corrects errors in the current ERS statutes to restore parity, with respect to age and service requirements for retirement, between current members who become judges after June 30, 2012 and other Contributory plan members who became members prior to July 1, 2012.

H.B. 808: Relating to the Employees' Retirement System and Civil Unions

In order to maintain its tax-qualified status (see proposal above), the ERS must comply with certain federal tax law requirements that specify when civil union partners are not considered "spouses" under federal law. This proposal amends three areas: (1) the right to a 100% joint survivor benefit when a civil union partner beneficiary is more than a specified number of years younger than the retirant, (2) the right to defer death benefits, and (3) preferential rollover rights for lump sum payments. Civil union partners would still have the rights accorded to spouses under the portions of the ERS statutes that are not restricted by the IRS Code. This bill also adds a new section to ERS Chapter 88 to confirm marital and spousal terms are inclusive of civil unions and civil union partners, unless to do so would jeopardize the tax-qualified status of the ERS.

S.B. 1036: Relating to Employees' Retirement System Personnel

As successful investment of the ERS fund is one of the foundations to the longevity and stability of the system, this proposal allows the ERS Board of Trustees, through its administrator, to appoint investment officers for the ERS investment office. The ERS currently has over \$12 billion in assets and an unfunded liability of \$8.4 billion. The investment office and new investment officers would assist and advise the ERS Board with critical information needed to structure the ERS investment portfolio to meet its asset goals and reduce the System's unfunded liability. In addition, this proposal changes the title of the ERS "Administrator" to "Executive Director" to be consistent with other government agencies and public pension funds.

Results of these proposals shall be covered in our June 2013 *Holomua*. Until then, you may follow these bills online at the State Capitol website noted above, by following our Administrator, Wes Machida, on Twitter at <http://twitter.com/ERSHawaii> or by accessing the ERS website at <http://ers.ehawaii.gov>.

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By now, we should be close to or past the 1st quarter of 2013. I hope the year is going well for you. As for the ERS, we had about 600 retirements in December 2012, which is usually our busiest month of the year for retirements. Recently on average, we have had about 500 retirements during December and about 400 retirements for June in any one year. While there are more than 14,000 members who are eligible to retire, we have yet to see a significant spike in retirements in the last couple of years. Many of those 14,000 come from the Department of Education, University of Hawaii, and Department of Health.

The markets have been favorable, as our investments increased to a value of about \$11.9 billion at the end of the first 6 months of our 2013 fiscal year. This equals a 7% investment return for the 6 months. We are hoping for continued positive outcomes as we close out the 2nd half of the fiscal year.

All active members should now have access to the self-service information that reports their years of service and account balance (for Contributory and Hybrid Plan members only). We hope to update this information at least semi-annually, if not more often.

We will continue to stay busy tracking legislation affecting the ERS. Many of the bills introduced that impact the ERS have been held or deferred and are no longer active for the 2013 legislative session. However, the good news is that the ERS initiated bills are still active (although it could change by the time you receive this newsletter). Our goal for this session was to be able to make the necessary tax compliance changes, so that we can maintain our tax-exempt status and continue to enjoy the favorable tax treatments afforded with this status. Another goal is to build our investment office, so that we can enhance investment revenues and control investment costs.

One of our future plans will be to look into the feasibility of having an office in the Kapolei area. We will keep you posted on this and our other efforts as the year progresses. Until then, stay healthy and happy.

Aloha,
Wes Machida

Preparing for Retirement — Noncontributory Plan and Social Security

In 1984, the Noncontributory plan was enacted as an alternative to the existing Contributory plan to provide members with an opportunity to invest income towards their own retirement as no ERS contributions were deducted from their salary.

Fast forward 29 years later, the ERS now has approximately 18,000 Noncontributory plan members, about 4,000 of whom are probably eligible to retire today. One of the main assumptions of the Noncontributory plan was that the pension would be a “supplement” to a retiree’s total retirement program or portfolio. The term “supplement” can be defined as “to complete, add to, or supply a deficiency.” The ERS Noncontributory pension was not meant to be a retiree’s sole source of retirement income. Many of the Noncontributory plan members voluntarily joined the defined contributions programs such as deferred compensation plans or tax shelter annuity programs to “supplement” their retirement portfolio. If you have not joined any defined contribution program, it’s never too late to start.

Also, any member of this plan must also be covered by Social Security; which raises another important “supplement” – Social Security benefits.

You can visit the Social Security website at: <http://www.ssa.gov>. to get an online Social Security Statement. By opening a “my Social Security” account, you will have access to your statement, estimates of your retirement, disability and survivors benefits, your earnings record and the estimated Social Security and Medicare taxes you’ve paid. To create an account, you must provide some personal information about yourself and provide answers to security questions. Next, create a username, and password to access your online account. This process protects you and keeps your personal Social Security information private.

Creating an account, will provide access to your statement with your monthly Social Security benefit and last reported earnings on which your benefit was based. We urge you to access all information available to you while planning for your retirement.

The screenshot displays the 'my Social Security' website. At the top, there's a navigation bar with 'My Home', 'Help Center', and 'Security Settings'. Below this is a sub-navigation bar with 'Overview', 'Estimated Benefits', and 'Earnings Record'. The main content area is titled 'Welcome, Social Security Statement'. It features a 'A Message from the Commissioner' section with links to 'What Social Security means to you...', 'About Social Security's future...', and 'Learn more about Social Security...'. Below this, there's a section for 'Estimated Benefit at Full Retirement age (66 and 6 months):' with a dropdown menu set to 'a month' and a 'View Estimated Benefits' link. Another section shows 'Last Reported Earnings:' with a dropdown menu set to 'in 2011' and a 'View Earnings Record' link. At the bottom, there's a 'Print / Save Your Full Statement' button and a note: 'Get a copy of your Statement information in a convenient, print-friendly format.'

Report from Vijoy Chattergy, Chief Investment Officer

Aloha Kakou. In the previous Holomua, I identified the important challenges of asset allocation, manager selection, performance measurement, and risk management as critical tasks for ensuring the success of the investment portfolio and the health of the ERS pension plan. I do want to delve into each of these topics, but first it might be informative to step back and ask why the Investment Office exists. What do we produce that is of any value?

If we were a shoe factory, we'd produce shoes. If we were a barber shop, you'd expect haircuts. As the Investment Office, we produce "returns," and by investment returns, I mean some change in the dollar or percent valuation of the assets in the portfolio from an earlier time period. Basically, our product is a number, or more accurately, a change in a number.

If the critical tasks identified above are executed, will a return be produced? Yes, but unlike a shoe factory or barber shop, there is probably more variability in the quality of the investment return than that of the shoe or haircut. In other words, doing these tasks, even with great skill, does not guarantee that the investment product (i.e., the return) will be what was expected.

Why is that? What exactly goes into manufacturing an investment return? In a word, it is "information."

Information is not only bits and bytes on a computer, although that often comes to mind. It's really anything and everything. An investor building "return" can take any news on the radio, report on a desk, or walk down a supermarket aisle to develop an investment thesis. For example, noticing instant noodles selling out at the local grocery might initiate an investigation into consumer confidence and cause a change in stocks held.

Of course, investing (i.e., building return) is not as straight forward as in this example. It's messy, uncertain, and inaccurate. That is the reason for the inconsistency of returns. Information is difficult to interpret.

So where does this leave our Investment Office; fumbling with gobs of data and trying to decide where to invest, so as to possibly create a quality return measured over 30 years? Well, the only real characteristics that can help, other than plain "luck" (which is a topic for another Holomua), is "experience" and the "ability to learn." Combining the concepts, "earned experience" (i.e., knowledge or wisdom) through years or circumstance is probably an investor's only hope at deliberately constructing returns.

This brings me back to the question of why we have an Investment Office. The Investment Office exists to produce investment returns that support the health of the ERS pension plan. To accomplish that objective, the Investment Office must be staffed by experienced professionals who view the world as an investment opportunity and who can interpret information to manufacture investment returns. Their primary responsibility and dedication must be to the sustainability of the ERS with the goal of providing current and future members with their promised benefits.

As the only current full-time investment professional on staff, I expect to hire two Investment Specialists in 2013. I hope to add up to three Investment Officers to the team soon after that. With six investment professionals, the ERS will be well served and even on its way to becoming a high quality investment returns "factory."

Online Service Update

The online information for the Hybrid and Noncontributory plan retirement accounts was launched in January 2013. The online information services for the Contributory Plan members have been available since December 2011.

Your "Retirement Account" information provides a "snapshot" of your retirement plan, account balance, and total creditable years of service on a specific date.

If there is any discrepancy with your retirement account information, click on the link to the Correction Form and mail to ERS with a copy of your "My Retirement Account" screen print. Upon completing our research, information will be updated. Our research may involve information from your current and previous departments to correct and/or clarify your personnel and payroll transactions. We appreciate your patience as we verify the necessary information.

Postcards were mailed out on January 25, 2013 with instructions on how to access your information online. If you did not receive a postcard, you can visit our website @ <http://ers.ehawaii.gov> and go to "Login to Self Service" to view your information. Enter your last name, date of birth, and the last 4 digits of your Social Security Number.

To date, the ERS mailed out approximately 72,000 post cards and approximately 2000 were returned by the post office due to incorrect addresses. If you did not receive a postcard and have recently changed your address, please submit your current address to your department, who in turn, will transmit this personnel transaction to the ERS.

We encourage you to visit our online service as your assistance is needed ensure your record is accurate. As a defined benefit plan, your retirement eligibility and pension are primarily based on your years of creditable service so we can avoid any delays in calculating your pension. Therefore, accuracy of your service credit will help us avoid delays in determining your benefit eligibility and calculating your retirement pension when you retire.

Emmit Kane elected new ERS Board of Trustees chairperson

The ERS Board of Trustees has elected Mr. Emmit Kane as its new Chair. Mr. Kane is one of four elected trustees on the eight-member board and his term will run through January 1, 2018.

Mr. Kane is an Assistant Fire Chief with the Honolulu Fire Department and has more than a decade of supervisory, management, and long-range planning experience. He was an East-West Center Degree Fellow and holds a Master of Business Administration degree from the University of Hawaii. In addition, he has served on the Executive Board of the Hawaii Fire Fighters Association.

Mr. Kane has been a member of the ERS Board since 2010 when he was appointed to complete the term of a retiring trustee. During the past 3 years he has chaired the board's Audit committee and has been a member of the board's Administrative and Investment committees. He replaces Colbert Matsumoto, the previous board chair. Vincent Barfield, Senior Vice President at Bank of Hawaii and appointed trustee, was elected as the board's Vice Chair.

ERS by the Numbers

Every year, our actuaries of the ERS provide us with the valuation report (see "What's New" on the ERS website) to analyze the ERS' financial condition. As part of this analysis, they review statistical data on the ERS active, inactive and retired members. These numbers present an interesting, and sometimes surprising, portrait of our membership.

ERS Membership as of June 30, 2012:

Active members	65,599
Retirees and beneficiaries	40,774
Inactive, vested members	6,909
Total:	113,282

Active Members:

Of the distribution of active members by 5-year age ranges, these ranges were highest in number:

Age 50 – 55	10,008
Age 55 – 59	9,834
Age 45 – 49	9,316
Age 40 – 44	8,587

There were 554 active members under the age of 25 and 3,397 active members age 65 and older.

Of the distribution of active members' years of service, these ranges were the highest in number:

5 – 9 years of service	13,899
10 – 14 years of service	10,689
20 – 24 years of service	9,016

There were 3,357 active members with less than 1 year of service and 1,642 active members with 35 years or more of service.

Retirees and Beneficiaries:

Average life expectancy of ERS retirees:

Males:	Age 85
Females:	Age 89

Ratio of active members to retirees (includes service and disability retirees and beneficiaries):

1.6 to 1 (about one and 1/2 active members for every retiree)

Average monthly pension (please note that each benefit plan and benefit category has different retirement benefit formulas, and that retirees select their monthly benefit from several options):

Average monthly Contributory pension amount	\$2,315
Average monthly Noncontributory pension amount	\$1,538
Average monthly Hybrid pension amount	\$2,090

News from the EUTF

Aloha! The Active Employee Open Enrollment period when you can make changes in your EUTF Health plans, will be from April 15, 2013 through May 10, 2013.

What's new?

The HMSA High Deductible Health Plan (HDHP) will be replaced with the **HMSA 75/25 Preferred Provider Plan (PPO)**, effective July 1, 2013. Enrollment in the HDHP has been extremely low and the new 75/25 PPO plan will provide more accessible lower cost coverage. Those enrolled in the HDHP plan will receive letters regarding how this will affect their Health Savings Accounts.

The Kaiser Basic Plan will be replaced with the **Kaiser Standard Plan**, effective July 1, 2013. Changes were made to the Kaiser Basic coverage to reduce the premium and make day to day medical expenses more affordable.

Members currently enrolled in either the HMSA HDHP or the Kaiser Basic plan will be automatically enrolled in either the HMSA 75/25 PPO plan or the Kaiser Standard plan if they do not select another plan during open enrollment. Plan differences will be fully described in the EUTF Reference Guide.

Employees enrolled in the HMSA Health Maintenance Organization Plan (HMO) will see their prescription drug benefits change to reflect the same benefits as the PPO prescription drug plan.

The EUTF Reference Guide will be given to your employer and distributed to employees by April 12, 2013. It will also be available on the EUTF website which also provides direct links to the carrier websites at www.eutf.hawaii.gov. Please refer to the Reference Guide for more information regarding the various plan changes mentioned in this article. If you still have questions about the plans after reading the Reference Guide, attend an Open Enrollment meeting or contact the appropriate carrier. Their phone numbers will be listed in the Reference Guide.

Why is Open Enrollment important?

This is the time when you can stop and think about health coverage for yourself and your family and determine which plan offered will best meet your needs. During Open Enrollment you can:

- Add a plan, change from one plan to another or drop a plan
- Add a dependent or drop a dependent
- Change coverage tiers such as changing from single to family or family to 2-party
- Now is also a good time to tell us if you've had a change of address

Open enrollment is your only opportunity to make these changes without a qualifying event such as needing to enroll a new dependent due to marriage or a birth. Paperwork must be submitted during the open enrollment period for changes to become effective.

Here are the important dates:

- Open Enrollment Election Period: April 15, 2013 through May 10, 2013
- New coverage becomes effective: July 1, 2013
- Rates change effective: July 1, 2013
- Plan Period: July 1, 2013 through June 30, 2014

Important: The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at eutf@hawaii.gov. You can also visit our website for more information @ www.eutf.hawaii.gov.



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to directly access the ERS website.

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Active Members

January/February/March 2013

Ask ERS

Answers to some frequently asked questions:

Q: I am currently a Noncontributory member. Why does "My Retirement Account" online information show "\$0.00" for my Account Balance?

A: Retirement contributions are not deducted from the salaries of Noncontributory members; therefore, there is no account balance.

Q: As a former vested member, when I am able to retire?

A: It depends if you were a member in the Contributory, Hybrid, or Noncontributory plan. You may visit our website at <http://ers.ehawaii.gov> for information regarding your eligibility for vested retirement. If you do not know the retirement plan to which you belong, logon to the ERS website, click on the "Login to Self Service" link, enter the information requested, and your retirement plan will be identified (see: "Plan Name").

Q: What average final compensation (AFC) should I use for the Benefit Calculator on the website?

A: You can use your average "monthly" salary over the past 3 years, your current salary, or the average of the highest 3 years. The calculator was designed to provide you with an opportunity to consider various projected retirement dates, membership service, AFCs, and beneficiary designations.

How to Contact Us

Monday-Friday 7:45 a.m. - 4:30 p.m.
(except State holidays)

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